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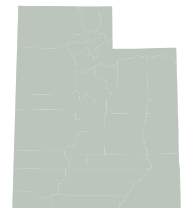
in this issue:

The Recession and its Impact on the Labor Force



BY MARK KNOLD, CHIEF ECONOMIST

One of the features that will historically mark the recent recession is less participation in the labor force. The difference between this recession and Utah recessions of the past is this one pushed labor all the way out of the labor force. Does that labor wish to return? The full scope of this movement and that answer are yet to be seen, as the Utah economy will have to "fully recover" before we see how much labor will return to the labor force and how much will permanently stay away.

Labor Force Participation

Labor participation is the percentage of the working age population (16 and over) who are either working or looking for work. If all people 16 and over were working or looking for work, then the participation rate would be 100 percent. We know that does not happen, so the participation rate is always something less.

Labor force participation has two components: employed and unemployed. If you have a job, you are in the labor force and employed. If you don't have a job but are looking for one, then you are also in the labor force. If you don't have a job and are not looking for a job, then you are not in the labor force.

Reasons for Not Participating

Generally, people are out of the labor force by choice. Some are young and still in high school, having not yet made the transition from education to work. Labor laws allow for the hiring of those in their teens, so that is why the labor force potential definition starts with age 16. Young adults may not be in the labor force because they are in college, or, in Utah, on LDS missions. Other adults may not be in the labor force because they are raising a family and a spouse works, or they may be independently wealthy or retired. Others may face physical or mental barriers. There are multiple reasons why people choose not to be in the labor force. In most cases, people are not in the labor force by choice.

But this recession and its fallout require a more attentive look at the segmentation of "choice." Most of what was described in the previous paragraph was a voluntary choice. But the recession expanded what is usually a minor subcomponent — "involuntary" choice. Individuals in this category are commonly called discouraged workers: people who want to work yet don't see a job market that is currently open to them, so they have chosen not to be in the labor force. But that choice is pushed upon them by a negative environment.

Profiling Labor Participation

Figure 1 shows the level and history of Utah labor force participation and the separate components of employed (gold) and unemployed (maroon). Total labor force participation is the top border of the maroon. It marks the cumulative total of employed and unemployed. This boundary is jagged, as the data presented reveals seasonal

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spikes within the labor force. For example, college students who do not work during the college term are not part of the labor force, but if they look for a summer job then they join for that season, thus becoming contributors to the seasonal pattern.

The historical flow in Figure 1 shows a steady labor force participation increase between 1976 and 1990. This increase was driven by two factors: the introduction of baby boomers into the labor force and increased female participation.

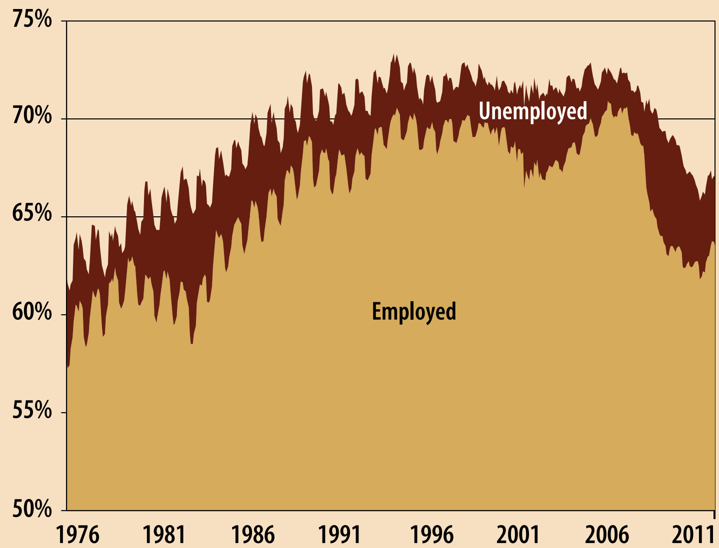
Baby Boom Influence

The sheer size and introduction of the baby boomers made them the most dominant part of the labor force in short order. Figure 2 is a Utah population age tree from the 1980 Census. The age levels in gold and above represent the potential labor force. The introduction of the gold bars (the baby boom) into the labor force rapidly made them the most dominant portion of the labor force composition. It is a given that younger people are more active in the labor force than are older people. So as the young became a larger proportion of the working-age population, naturally the participation rate for the entire labor group would increase.

Female Influence

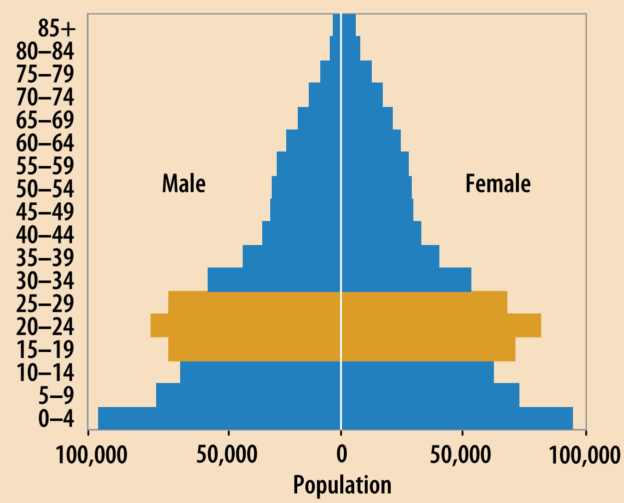
The second factor, increased participation of women in the labor force, was an economic attribute of the United States economy emerging at that time that also manifested in Utah. Various factors fueled this change in mindset, and it occurred alongside the labor entrance of the baby boom generation.

Figure 1: Utah Labor Force Percent Participation Employed and Unemployed, 1976–2012



Source: U.S. Bureau of Labor Statistics; Local Area Unemployment Statistics

Figure 2: Utah's Population by Age and Gender, 1980

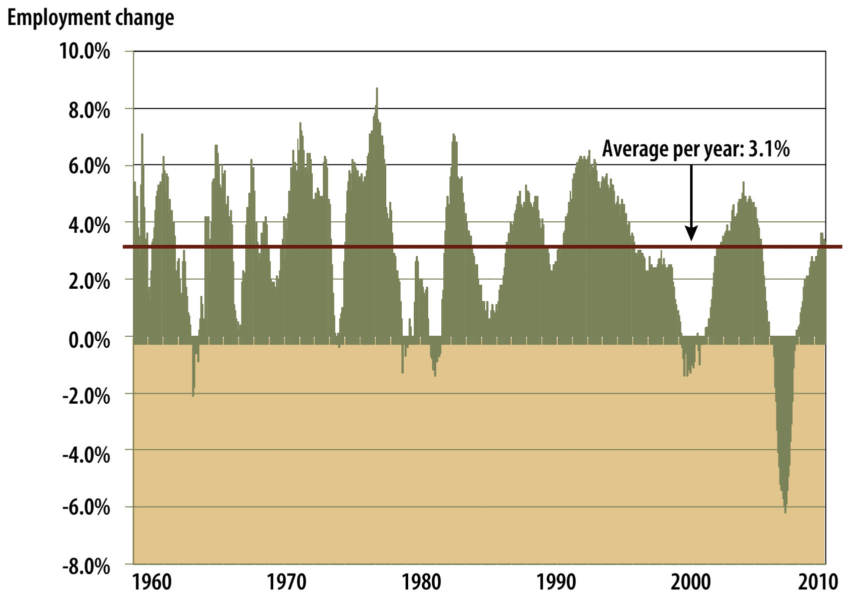


Source: U.S. Bureau of the Census

Participation Rates

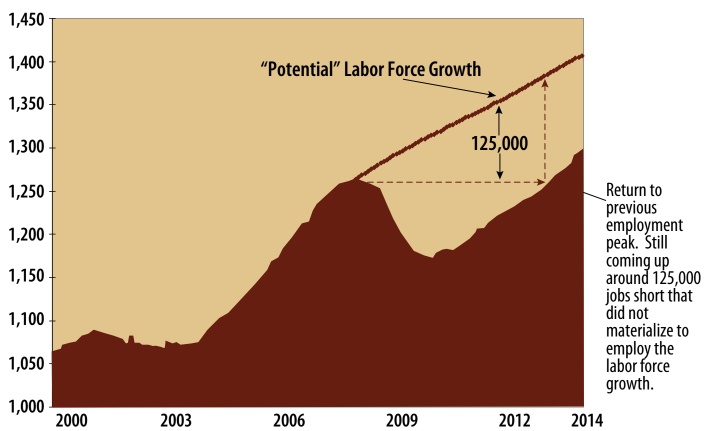
In 1976, Utah's labor force participation rate was around 63 percent. By 1990, participation had risen to around 72 percent for the reasons above. Then the rate held around 72 percent for roughly the next 20 years — years in which the baby boomers worked through the middle segment of their lives. Even during the dot-com recession around 2002, overall labor force participation remained largely unchanged. The composition shifted from some employed

Figure 3: Utah Employment Percent Change,* 1960–2012



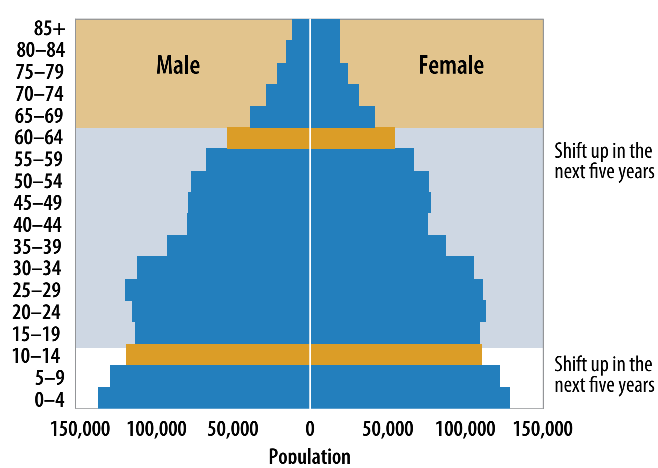
Source: U.S. Bureau of Labor Statistics, QCEW through September, 2012
**Based on O-T-Y NSA*

Figure 4: Utah Employment, 2000–2014f



Source: U.S. Bureau of Labor Statistics, December 2012
forecast = Department of Workforce Services

Figure 5: Utah's Population by Age and Sex, 2010



Source: U.S. Bureau of the Census

moving to unemployed, but the overall labor force participation changed little.

As the Utah unemployment rate was low through many of those 20 years and the participation rate held steady, we assume that labor force participation was maxed out. In other words, the level at which working-age people voluntarily chose not to be in the labor force numbered around 28 percent. It held long enough to view as a baseline.

Then came the labor force participation decline of the Great Recession, beginning in 2008. In short order, the participation rate fell from 72 percent at the recession's onset to a recession low of 66 percent by early 2012. Now 34 percent of the labor force age was not participating. As this decline coincided with the recession, it is not a trivial assumption that the 6 percentage-point decrease in participation

The Recession and its Impact on the Labor Force (continued)

was recession-driven, resulting in a significant increase in the number of those "involuntarily" leaving the labor force.

The Scope of the Labor Force Decline

To quantify the recession's labor force decline, around 130,000 fewer people were in the labor force at the decline's low point (early 2012) than were there before the recession's start. That doesn't include those who are still active job seekers and officially labeled unemployed.

There was no large structural component that would have emerged in the economy at that time, like a sudden movement of people retiring. It was instead the cyclical downturn of the recession. This recession was unusually strong. Figure 3 shows the amount of job loss during this recession in relation to recent history. It was the largest setback in the post-World War II era. It very much stands out as a dramatic and unique setback in the economy that had to have a large ripple effect on the labor force. With job losses so deep and across multiple years, a fair amount of people got pushed from the employed to the unemployed ranks. And upon being there for a length of time, it is easy to see how workers and potential workers were pushed not only onto the unemployed rolls, but eventually out of the labor force altogether. This is a classic picture of discouragement, or the "involuntary" decision to leave the labor force.

Where We Are Now

We see in Figure 1 that labor force participation has turned the corner and is beginning to climb again, yet remains below its pre-recession level. As of late 2012, Utah job counts have returned to their pre-recession level (Figure 4). So why isn't labor force participation also back to its pre-recession level? Because the labor force age continued to grow through natural population growth across that time, while the economy, in total, added no new jobs. That creates a labor-to-employment deficit. The potential labor force between 2008 and end of 2012 grew by roughly 125,000. Figure 4 illustrates this deficit. That is roughly the remaining deficit of Utah labor still sitting on the sidelines that could come back to the labor force (assuming a 70 percent participation rate). And remember, that doesn't include the roughly 70,000 currently in the official unemployment rate (the maroon portion of Figure 1).

It would be at least several more years before the labor force approaches 70 or, at best, 72 percent participation again. You would need to see 125,000 people right now start to look for a job for the participation rate to reach 70 percent. It would take very strong job growth to employ them and multiple years to accomplish. In addition, roughly 25,000 people age into the labor force every year, and they must be absorbed in the future as the economy also tries to absorb the past. That makes for a moving target to get to 70 percent, a percentage that seems reasonable given Utah's young labor composition as illustrated in Figure 5.

Some have commented that with the aging of the baby boomers toward retirement, maybe we will never get back to 70-some percent. That thinking holds true at the national level where the baby boomers are such a large part of the total labor force, but Figure 5 suggests that may not be as strong of a factor in Utah. The amount of labor in the lower gold bar that will age into the labor force will more than offset the increase in retirement from baby boomers as represented by the upper gold bar. Yet in the end, it is unlikely that Utah's participation rate will go back to 72 percent. Instead, something closer to 70 percent seems realistic, so that 2 percentage-point drop will be driven by some subtle structural changes. But most of the current slide is cyclical and primed for a rebound.

Conclusion

Labor force participation was a big casualty of the recent recession. A significant proportion of potentially idle labor in Utah is not reflected in the unemployment rate. Roughly 125,000 people are not in the labor force who otherwise might be had there not been a recession. As this labor force decline coincides with the recession itself, it is assumed that the decline is cyclical in nature and not structural; in other words, we can expect much of the lost labor force participation to find its way back into an active role as the economy improves.

Utah's Economic Rebound Continues

BY MARK KNOLD, CHIEF ECONOMIST

All the jobs are back! As of the end of 2012, Utah had equaled its peak employment level achieved before the recession began (Figure 6). It took 26 months (from December 2007 to February 2010) to lose 92,000 jobs to the recession. It has taken 34 months since then to get those 92,000 jobs back.[1]

That's the good news. But that still leaves the Utah job market about 125,000 jobs short of covering the growth in the potential labor force since the start of the recession. But let's keep running with the good news.

Utah's reclaiming of its lost jobs places it in an exclusive list. All states lost jobs during the recession, some more than others. But only seven states now equal or exceed their pre-recession employment peaks (list includes Washington D.C.). They are (in order of employment over and above peak) North Dakota, Washington D.C., Texas, Alaska, Louisiana, Oklahoma and Utah. Other than D.C. and Utah, these states are being pushed along by the recent energy boom. Of that list, Utah experienced the highest percentage of job loss from peak employment to recession low, so Utah had a larger deficit to eliminate than did any of those other states.

In terms of percentage employment growth from each state's recession low to their current level, Figure 7 shows Utah with the second highest percentage employment growth of any state, exceeded only by the unique energy boom underway in North Dakota.[2]

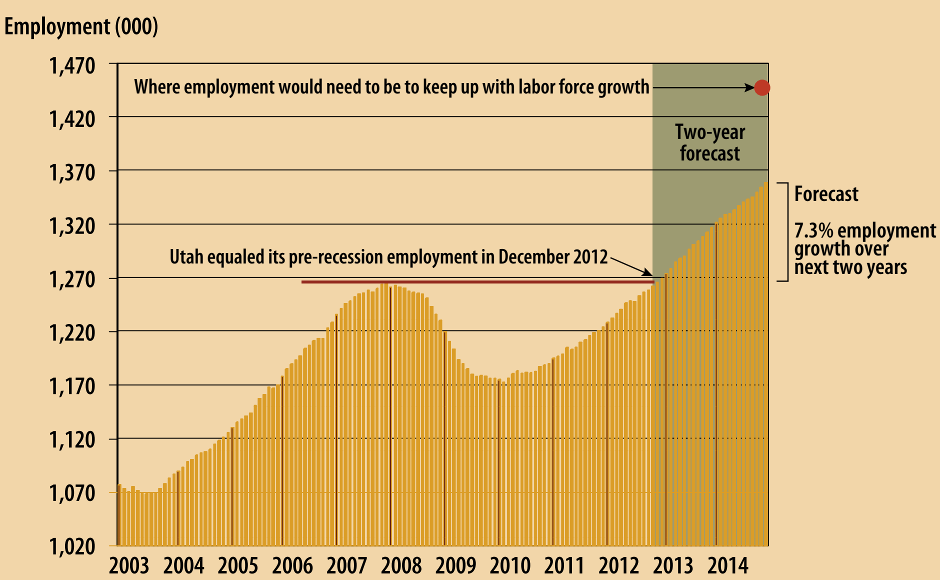
So why is Utah rebounding better than most states in its recession recovery? On that list of seven states, Utah is the only one not dominated by energy production or federal government stimulus. Utah's energy production in the Uintah Basin is booming, but it is far too small to say that alone is pushing Utah forward. Of Utah's 92,000 jobs recovered since the recession's bottom, only around 2,000 are directly linked to energy production.

So again, why is Utah doing well? It is strong population growth — in particular,

[1] Based on seasonally adjusted employment data and Workforce Services' employment forecast for December 2012.

[2] Utah's 7.3 percent employment gain from its recession low has only brought Utah's employment back to parity with its pre-recession peak.

Figure 6: Utah Monthly Employment, 2003–2014f



Source: Department of Workforce Services; January 2013
f = forecast

Utah's Economic Rebound Continues (continued)

labor force growth. With its consistent highest-in-the-nation birth rate, Utah's economy is always being pushed forward by one of the country's best population growth rates. An inviting business environment is not to be overlooked in this discussion, as it complements labor force growth. But the overwhelming driver is population growth, which fuels potential labor force growth.

Utah has just equaled its pre-recession employment. In effect, that means there has been no net employment growth over the past five years. Yet working with Census Bureau population estimates for Utah, the working age population (16 and over) has grown by 183,000 in those same five years. Assuming that roughly 70 percent of the working age population would actually like to work, that means that the Utah job market is still largely 125,000 jobs short of fully employing the labor force.

The sheer growth within the labor force in and of itself is a major economic driver. People drive commerce and commercial interaction — the more people, the more commerce. If the Utah population segment that stimulates commerce has grown by 7 percent over the past five years while the economy has not expanded the employment base at all, at some point the economy will be stimulated to grow to try and close this gap. And that seems to be the major factor behind Utah recovering its recession-induced employment losses faster than most other states.

Another interesting aspect is that Utah has been able to achieve this second-in-the-nation employment growth without the aid of any meaningful housing or construction contribution. That is significant given that nearly all recession recoveries have been led by a growing and rebounding housing/construction industry.

Over the past year, Utah employment has grown around its long-term yearly average of 3.1 percent — the first time it has done that since 2007. If Utah can do that with minimal construction contribution, what might we expect from the Utah economy in 2013 when we believe the housing market will finally make a noticeable contribution to economic growth?

The housing market was historically subdued for the past five years. It has nowhere to go but up in Utah if the historical relationship between population growth and home building returns. Utah's housing market sent signals in 2012 that it had turned a corner. Both sales and prices were up. Even new home permits were higher than forecast, though that forecast bar was extremely low. Many of the negative variables that were stifling the housing market seem to have eased in 2012, allowing one to believe that 2013 may unleash a pent-up demand for housing, translating to stimulation for the construction industry.

One strength of the current Utah rebound is the diversity of job gains across most industries. It is not just concentrated in an industry here or there. That diversity makes for a stable and more lasting recovery.

Figure 8 shows there is still a ways to go though. Most industries lost jobs during the recession, represented by the green bars. Education and healthcare (private sector education) and government (driven by state and local public education) were the only sectors to not lose jobs during the recession. But areas like construction, manufacturing and trade/transportation/utilities (among others) lost a significant number of jobs. The gold bars represent the amount of job rebound that has occurred since each industry's recession low point. Several industries still do not have as many jobs as before the recession.

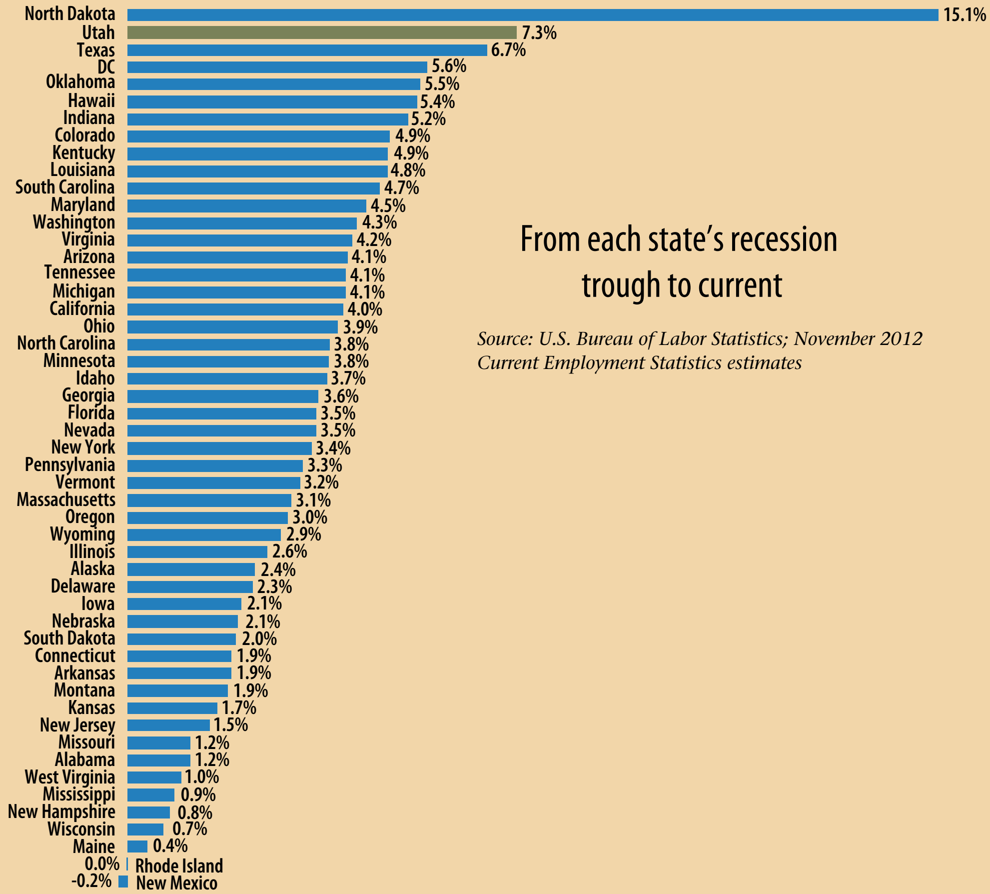
In the case of the construction industry, that is actually good. A strong rationale can be made that industry was operating way beyond its means. Historically, construction jobs account for around 6 percent of all Utah jobs. That percentage had grown to over 8 percent by the recession's onset. That is a signal of a bubble and what we now know was overbuilding. So we don't want the construction employment to return to pre-recession levels; at least not yet — not until the population grows within Utah to support a construction industry of that size at a more reasonable percentage of total employment. That may not be seen until decade's end or later.

But look at the trade/transportation/utilities sector, dominated by retail trade, the prime area where consumer dollars are captured and circulated through the economy. That sector largely performs in concert with population growth. As population increases, one would expect commerce to also increase, which should lead to more retail activity and hiring. Yet Figure 8 shows that employment levels in this sector are still below their pre-recession peak. But we have seen that Utah's working-age population has grown by 183,000 since then. So if the trade industry is currently employed at a level still below the pre-recession population level, this seems to imply there is still a lot more growth potential left in this industry to match the added commerce potential from an additional 183,000 people.

To add some context to an industry like trade that generally expands alongside population growth, look at two industries that are significantly driven by population growth — education and health care. What makes them different than trade is they are somewhat immune to the greater business cycle. They show themselves in two places in Figure 8 — in education and health (this is private sector education), and government (this covers public education). Both industries lost no jobs during the recession. Instead, they grew. These industries are prime examples of how population growth alone can push business forward. So one could believe that another industry sensitive to population growth, trade, is still operating with pent-up demand.

The next two years are forecasted to help the Utah shortfall, but not eliminate it. Figure 6 shows Utah's employment just getting back to its pre-recession level. Also represented is the projected job growth of the next two years. At 7.3 percent, that is a growth rate above average. Yet even with that, Utah's job market will still be coming up thousands of jobs short of fully employing the labor market. The needed employment level to achieve full employment is represented by the red dot. It is possible that the employment growth forecast could be even better. That would be most welcome, but it would still leave Utah a few years short of full employment.

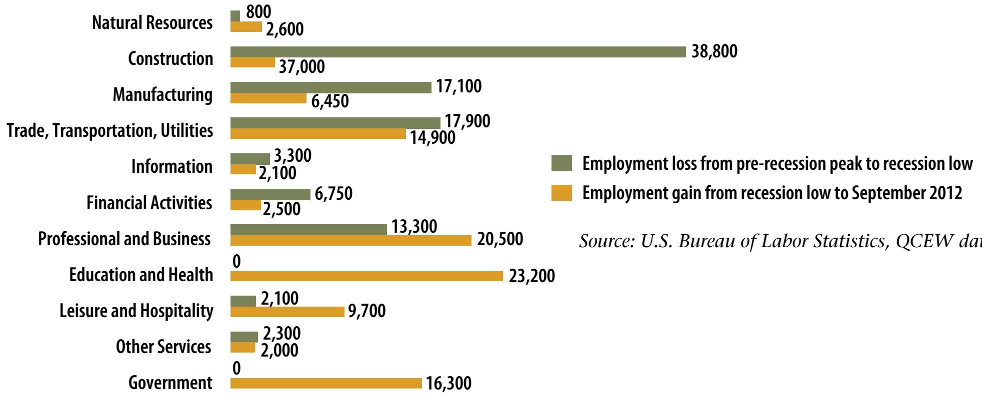
Figure 7: State-by-State Employment Recovery



From each state's recession trough to current

Source: U.S. Bureau of Labor Statistics; November 2012 Current Employment Statistics estimates

Figure 8: Utah Nonfarm Industry Profile (Numeric Change), 2007–2012



Source: U.S. Bureau of Labor Statistics, QCEW data

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utahinsights

Executive Director: Jon Pierpont

Director, WRA: Rick Little

Supervising Economist: Carrie Mayne

Chief Editor: Kathy Hopkinson

Statewide Economists:
Mark Knold • mknold@utah.gov
(801) 526-9458

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Initial Claims as an Economic Indicator

BY MELAUNI JENSEN, LMI ANALYST

The Unemployment Insurance Benefits program in Utah is administered by the Department of Workforce Services. This program was started to help safeguard the economy against short-term losses by aiding individuals who have lost their income because of a layoff. Through this program, DWS collects contributions, determines eligibility, takes claims and pays benefits to unemployed workers. When individuals find themselves out of work through no fault of their own or have their hours reduced, they can file what is called an initial claim, allowing them to become eligible for a minimum of 10 weeks and a maximum of 26 weeks of regular benefits. Not all claimants will use the entire time, as they may be able to find a new position with another industry or employer. To be eligible for these benefits, unemployed workers must meet certain criteria as defined by DWS, and an individual will not be eligible if they voluntarily leave their job. If a claimant has been deemed eligible, they will receive an amount based on their earnings over a recent 52-week period. Utah continues to update its UI program, making it easier for both claimants and employers, giving them the option to file and respond online.

When businesses lay off workers it causes the number of initial claims to rise — an indicator of a weakening economy. As the economy recovers and layoffs drop, so do initial claims. Mass layoffs, or establishments having 50 or more initial claims in a five-week period, are usually a contributing factor to a drastic increase, and the Unemployment Insurance program helps identify those layoffs to ensure that workers qualify for UI benefits.

Analysts measure the level of initial claims to provide a leading indicator of labor market conditions in an attempt to gain insightful information about the economy. Initial claims data is released on a weekly basis. Some have questioned whether measuring initial claims in this way is a good indicator. Initial claims can increase when individuals are laid off or when the percentage of individuals who are eligible for, claim and receive UI benefits rises. This can make it more difficult to compare these levels over extended periods of time. Over the latest recession, the UI program expanded and allowed more workers to be eligible for benefits, making analysts take a harder look at those indicators.

In the beginning of 2007, Utah's economy was still thriving with just over 6,300 initial claims for January; but by the start of 2009 that number had risen to over 20,000 claimants. The labor force obviously suffers during recessions, and as we moved further into this latest, roughly 80,000 jobs were taken from Utah's workers, and UI claims continued to rise. In the past three years, initial claims have made a slow but steady descent with a 9,343 monthly average in 2010, just under 8,000 in 2011 and this most recent year behind us with barely over 7,000. In Utah, most economists and analysts agree that these and other indicators will continue to show this downward trend.